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November 19, 1997

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

COX COMMUNICATIONS

Commissioner Michael Powell
Federal Communications Commission
1919 M Street, NW
Room 844
Washington, DC 20554

Re: RM-9167

Dear Commissioner Powell:

The Consumer Federation of America recently asked the Commission to freeze regulated cable rates and re-evaluate certain FCC cable regulations. I believe that Cox Communication's behavior since the passage of the 1992 Cable Act provides compelling evidence that CFA's request is both unnecessary and counterproductive.

The Commission's mandate under the 1992 Act is to ensure that cable rates are, and remain, reasonable. After reducing existing rates in 1993 and 1994 by as much as 17 percent to bring them to a competitive level, the Commission restricted the cost increases that regulated cable operators can pass on to their customers. Under benchmark regulation, these cost increases are limited to five categories: inflation, programming costs (including costs associated with the carriage of broadcast stations), cable-specific taxes, franchise fees, and increased burdens imposed by local franchising authorities. The Commission reasoned that these "external costs" are largely beyond the cable operator's control. Thus they are the very types of costs that would be reflected in rates in a competitive environment.

The principal driver of Cox's rate changes since re-regulation (accounting for a majority of our increases) has been increased programming costs for existing and new program services. The remaining adjustments reflect changes in inflation and, to a lesser extent, increases in costs imposed by local governments under our franchise agreements.

You are no doubt well aware that Cox's experience with rising programming costs is not unique. As demonstrated by Bureau of Labor Statistics data, programming costs for the cable industry as a whole have increased at a rate substantially above the rate of inflation. Moreover, Cox's increases are not the result of a nefarious scheme to inflate the rates of its affiliated programming services with an eye to disadvantaging our non-cable competitors, as CFA suggests. To the contrary, in Cox's experience, many of the highest rate increases have been demanded by popular program services that have no cable ownership at all. Cox's program costs also are rising because, in a competitive

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marketplace, it constantly is adding new channels to keep up with the expectations of its customers.

In my view, it would be contrary to the express wishes of consumers for policy makers to make it more difficult for regulated cable operators to continue carrying highly-valued program services or to add new program services to upgraded cable systems. If the entry of DBS and other cable competitors into the video marketplace has proved anything, it is that consumers want top-quality programming, and lots of it. The fact that cable penetration has actually increased in the face of growing competition further underscores this truth. It makes no sense, from the customer's point of view, to diminish our incentives to continue carriage of popular channels and to add new ones.

The programming issue, however, is only one piece of the puzzle. What is often lost in all of the rhetoric over cable rates is that Cox has invested billions of dollars to upgrade its systems since rate re-regulation -- but virtually none of this cost has been passed on to its cable customers. Cox spending to ready its infrastructure for the provision of competitive digital TV, voice and high-speed data services will exceed $3.5 billion by the end of 1998. We already have launched high-speed data services in Orange County and San Diego, California; Phoenix, Arizona; Omaha, Nebraska; and Connecticut. We have rolled out commercial, facilities-based digital telephone services to residential customers in Orange County, with Omaha to follow shortly. We provide commercial, facilities-based telephony services to numerous businesses in Oklahoma City, Oklahoma; the Hampton Roads area of Virginia; and New Orleans, Louisiana. We offer digital wireless service in southern California as a result of our pioneering efforts to use the cable infrastructure to support PCS service. And, our Orange county system recently became the first Cox operation to offer digital television to its customers.

By the end of this year, Cox will have more than 1 million data-ready households and 250,000 telephony-ready households. Given a continuation of the extremely positive market reaction to these new services, they will be available in a substantial number of Cox's nine regional clusters by the end of 1998, and in all of those clusters by the end of 1999. These nine clusters represent more than 80% of Cox's 3.3 million customer base.

In short, Cox firmly believes that it has done what policy makers asked it to do when they re-regulated the cable industry. It has played by the Commission's rate rules. It has worked hard to constantly improve its cable service by enhancing the quality, quantity and reliability of its program offerings. (Indeed, in a 1996 survey by J.D. Powers and Associates measuring customer satisfaction in the cable industry, Cox was ranked the number one cable MSO – a position it retained vis-a-vis its cable peers in J.D. Powers' 1997 survey of cable and satellite TV customers.) And, Cox is living up to its commitment to offer a full range of voice, video and data services over its upgraded, twoway infrastructure – without passing the enormous costs of this venture on to its regulated cable customers.

The CFA petition describes a world in which monopolistic cable operators evade already-lax Commission rules to offer poor service to captive consumers. As the above facts attest, that is simply not the world which we inhabit. I accordingly urge you to resist CFA's calls for a rate freeze and a re-evaluation of the Commission's existing cable regulations.

Sincerely,

James O. Robbins